The Grand Union Company

1975 Annual Report

Our Cover

The Grand Union Flag, long regarded as the first flag of the United States, waves proudly outside Grand Union's Pawling, N.Y., Family Center. The flag was first raised in 1775 by John Paul Jones and was carried by George Washington during his famous crossing of the Delaware.

A pretty Grand Union cashier bags groceries in the company's Morristown, N.J., supermarket while a group of employees bid "Happy Birthday America" in the Ticonderoga, N.Y., Family Center.

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Directors

Emerson E. Brightman
Executive Vice President

Thomas R. Doyle
Executive Vice President

James M. Goldsmith
Chairman of the Board, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Bowman Gray, III
President, General Occidental, Inc., international finance, Elmwood Park, New Jersey

S. William Green
Regional Administrator, U. S. Department of Housing and Urban Development, government agency, New York City, New York

Jack Greenhalgh
Executive Vice Chairman and Managing Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Michael L. Haynes
Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Rafael Pico
Vice Chairman, Banco Popular de Puerto Rico, financial institution, San Juan, Puerto Rico

Arthur Ross
Vice Chairman and Managing Director, Central National Corporation, investments, New York City, New York

Lionel J. Ross
Financial Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Earl R. Silvers, Jr.
Administrative Vice President and Secretary

James Wood
President and Chief Executive Officer, The Grand Union Company; Joint Deputy Managing Director, Cavenham Limited, food retailing and manufacturing, Hayes, Middlesex, England

Officers

James Wood
President and Chief Executive Officer

Emerson E. Brightman
Executive Vice President — Services

Thomas R. Doyle
Executive Vice President — Supermarkets

Ernest H. Berthold
Senior Vice President — Merchandising

Patrick A. Deo
Senior Vice President — Supermarket Operations

Glynn H. Coryell
Financial Vice President

Alan C. Goulding
Vice President — New York Region

Bertram S. Kaiser
Vice President — Grand Way Division

J. Barron Leeds
Vice President — Labor Relations

John D. O'Connell
Vice President — Development

James G. Poulos
Vice President — Florida West Coast Development

Rodney L. Renne'
Vice President — Distribution

Caryle J. Sherwin
Vice President — Northern Region

Earl R. Silvers, Jr.
Administrative Vice President and Secretary

Vincent J. Veninata
Vice President — Personnel

Lee E. Sappington
Treasurer

Vito A. Cardace
Controller

John H. Milbank
Assistant Treasurer

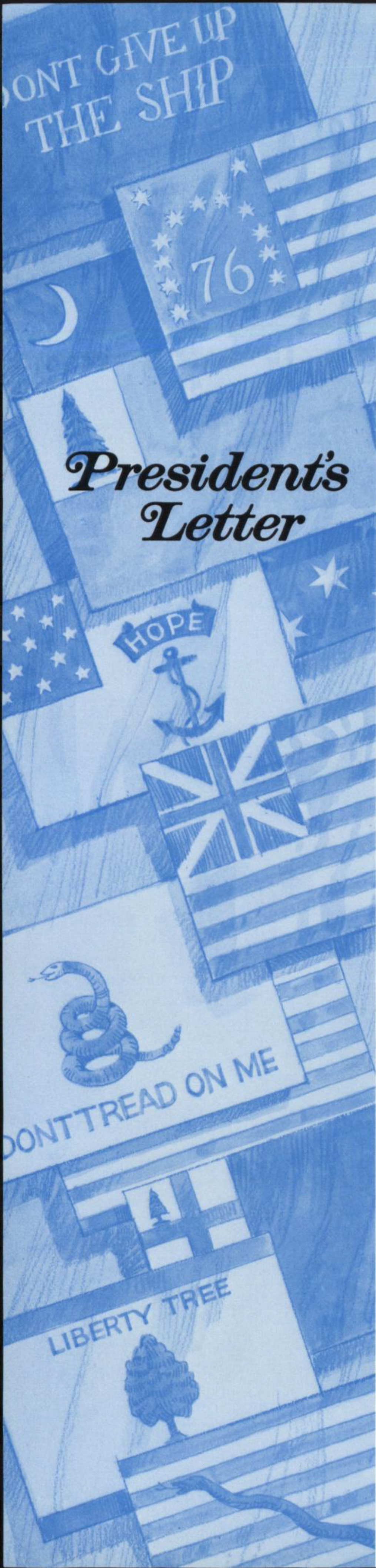
Baxter T. Duffy
Assistant Secretary

Frederick H. Guntsch
Assistant Secretary

Financial Highlights 1975

	Fiscal year ended April 3, 1976	Fiscal year ended March 1, 1975
Sales	**$1,611,195,000**	$1,562,736,000
Income before income taxes	**21,136,000**	18,300,000
Net income	**11,687,000**	9,504,000
Income per common share	**1.87**	1.51
Cash dividends per common share	**.80**	.80
Net income as a per cent of sales	**.73%**	.61%
Working capital	**$99,517,000**	$113,118,000
Ratio of current assets to current liabilities	**2.00 to 1**	2.07 to 1
Average number of common shares outstanding	**6,211,314**	6,249,847
Number of common stockholders	**8,744**	13,972

Customers in Toms River, N.J., reacted enthusiastically on the opening day of the new Grand Union Family Center in that community. The store was one of 14 new units opened during fiscal 1975.



President's Letter

To Our Stockholders:

The past year was one of the best in the company's 103-year history. Record sales and substantially improved earnings were achieved during a period of intense competition and despite a lagging, albeit improving, economy.

During the 53-week 1975 fiscal year that ended on April 3, 1976, sales totaled $1,611,195,000. This set a new high for the 13th consecutive year. In 1974, sales were $1,562,736,000.

The company had net income of $11,687,000, or $1.87 per share during 1975. This compares with net income of $9,504,000, or $1.51 per share, during the 1974 fiscal year.

Included in net income for the 1975 and 1974 fiscal years were charges of $8,150,000 and $6,712,000, respectively, for losses anticipated from the planned disposition of certain facilities and investments, offset by credits of $1,500,000 and $2,012,000, respectively, from the company's re-evaluation of the estimated future redemption of trading stamps. Without these net charges of $6,650,000, net income for fiscal 1975 would have been $2.42 per share, matching the highest per share earnings ever achieved by the company. This record was set during the 52-week 1971 fiscal year. In fiscal 1974, the figure would have been $2.14 per share without the net charges of $4,700,000.

With the reorganization of the company virtually completed and execution of the last write-offs against earnings carried out during the first half of the year, earnings in the final half rose sharply over the comparable period of the prior year. They were significantly ahead of the previous record for the same period in the 1971 fiscal year.

The current fiscal year should see a continuation of the rising earnings trend achieved in 1975. No further major write-offs are anticipated within the foreseeable future. An improving economy should further help to strengthen sales and profits.

Capital development will be greatly stepped up this year and through 1980. The company's five-year master plan calls for opening more than 100 new supermarkets as part of a capital improvement program in excess of $150 million. Major renovations of existing stores are scheduled to be completed at the rate of approximately one store per week in the current year.

Improved financial accounting systems put into operation last year performed well during 1975. The company now produces vital management

information every four weeks. Previously, such information was available only on a quarterly basis. Grand Union's electronic data processing systems are now equal to or better than any existing financial reporting systems in the supermarket industry.

Greater emphasis on comprehensive financial controls, coupled with improved management information, has benefited all operational units.

Charles G. Rodman, Chairman of the Board and a former President of Grand Union, and Martin J. Condon III resigned from the Board of Directors on May 1, 1976. I want to express my sincere appreciation to both of these men for their contribution to the company.

There were additions to the senior management team during the year. The Directors elected Ernest H. Berthold and Patrick A. Deo as Senior Vice Presidents; Bertram S. Kaiser and Alan C. Goulding as Corporate Vice Presidents, Lee E. Sappington as Treasurer and Vito A. Cardace as Controller.

Cavenham Limited, the British food manufacturing and retailing group, increased its majority holding to an 82 per cent interest in Grand Union, representing 5,100,000 shares of the company's common stock, through a successful debenture exchange offer by its subsidiary, Cavenham (USA) Inc., in January, 1976.

The continued improvement in company operations and profitability is a tribute to the 21,000 employees who worked so hard on Grand Union's behalf. During this Bicentennial year when we celebrate the founding of the United States, I wish to extend special praise to each member of the Grand Union team for a job well done.

Sincerely,

James Wood

James Wood
President and
Chief Executive Officer

May 27, 1976

James Wood, right, President and Chief Executive Officer, confers with Thomas R. Doyle, Executive Vice President in charge of the Supermarket Division.

Review of Operations

Supermarket Division

The Supermarket Division, which accounts for 95 per cent of the company's sales, turned in an excellent profit performance during 1975.

Continued pressure on the consumer's food budget resulted in sporadic periods of buying resistance. At the same time, intensive competitive pressures were being felt throughout the entire operating area. The division dealt successfully with these adverse trends by implementing aggressive price and advertising promotions, coupled with efficient control of operating expenses.

The elimination of trading stamps as a promotional device was completed during the year. In place of stamps, the division concentrated its efforts on lower pricing, supported by a more effective advertising and promotional program.

Concentrated efforts continue to develop top level executives in the division. The merchandising and operations functions were placed under the supervision of Ernest H. Berthold and Patrick A. Deo, respectively. They were both elected Senior Vice Presidents, reporting to Thomas R. Doyle, Executive Vice President in charge of Supermarkets.

In addition, the New York Region of the company, formerly composed of two divisions, was restructured into four operating units of more manageable size. The greater degree of decentralization enables more effective control over day-to-day store operations, and adds flexibility in merchandising.

The Supermarket Division is now composed of three regions which include nine operating divisions. The New York Region includes the Long Island, Jersey, Metropolitan and Suburban Divisions with stores in New Jersey, Connecticut, southern New York State and Pennsylvania. The Northern Region includes the Central and Empire Divisions with operations in upstate New York, Vermont, New Hampshire and sections of Massachusetts and Connecticut. The Southern Region is comprised of the Florida, Washington and Caribbean Divisions with stores in Florida, Maryland, Virginia, West Virginia, Puerto Rico and the U. S. Virgin Islands.

During the year, 14 new stores were opened, 37 were remodeled and five were enlarged. Thirty small, obsolete and generally unprofitable units were closed. Capital development plans for this year have been intensified. Twenty-two new stores are planned, including 16 Family Center stores with 28,000 square feet of space or more. Fifty-three stores will receive major renovations, an-

Grand Union Family Centers, such as this store in New Jersey, are large, modern one-stop shopping centers for most household and food needs.

other 50 will undergo minor remodeling and six will be enlarged. At the end of the fiscal year, the division was operating 487 supermarkets.

The new Family Center stores, as well as some of the larger stores to be renovated, generally will contain expanded general merchandise departments, Grand Rx prescription drug units, in-store bakeries, wine departments, plant and floral departments, a complete selection of prepared hot foods and imported cheese departments. Many of these special sections will be highlighted through the use of distinctive decor designed to maximize the "shop within a shop" atmosphere which is popular with consumers.

Priority this year in the division will be on a continuation of the excellent pattern of profit improvement developed last year and a further upgrading of physical plant and service. Imaginative and creative merchandising programs will be implemented to capture a larger share of market in all trading areas. Particular emphasis will be placed on the increase of the average store sales of the larger Family Center stores.

To increase operational and merchandising efficiency, "model stores" have been developed throughout the chain. Each unit selected for the program is carefully analyzed and all aisles are arranged to provide optimum customer appeal. Then each store is utilized as a training center for divisional personnel. An integral part of the "model store" program is special instruction for store personnel aimed at optimizing the quality of customer service.

The Supermarket Division is well positioned and should continue to do well through 1976.

Grand Way Division

Reduced to a nucleus of 14 profitable units in 1974, the Grand Way general merchandise store division recorded the highest earnings in its history during 1975.

Major renovations were completed at Grand Way stores in Binghamton and Endicott, New York. Renovations are scheduled at stores in Rome, New York; Sunbury, Pennsylvania, and Miami, Florida.

Store operations will continue to be improved. Merchandising will emphasize higher quality, reasonably priced, seasonally correct assortments in the clothing line.

The nine-store Grand Catalog Showroom Division of the company was merged with the Grand Way Division as of April 19, 1976. Five showrooms were closed during July and August, 1975. The catalog division's warehouse has been phased out and inventory control transferred to Grand Way.

Other Activities

The North American Equipment Corporation is a wholly-owned sub-

Eddie White, a cashier at the company's Dyckman Street supermarket in New York City, was cited in February by THE NEW YORK TIMES for his courtesy and helpfulness towards customers.

High quality Grand Union meat, attractively displayed in all stores, is a favorite among consumers.

sidiary which makes materials handling equipment. Sales of the company's two major products, the LogicFlow electronic pallet handling system and the Quik-Pik gravity flow storage and selection unit, were excellent, and the company had a profitable year.

The Grand Properties Division is charged with the responsibility for purchasing real estate and arranging for the construction of company-owned supermarkets and other facilities. It also negotiates for the disposition of leases on closed properties. During 1975, the division successfully disposed of 49 leases on closed units and assisted in handling a variety of other real estate ventures.

Consumer Affairs

Through its Department of Corporate Communications and Consumer Affairs, Grand Union communicates directly with customers by letter and telephone. Special recognition was given the company for its tie-in with a nationwide observance of Food Day through advertising inserts urging the serving of nutritious meals. A Gold Leaf "Certificate of Recognition" was awarded the company by Family Circle magazine for an in-store leaflet distribution program giving shoppers hints on food preparation and nutrition.

Grand Union also cooperated with the U.S. Department of Agriculture by conducting Food Stamp and Nutrition Information programs in a number of supermarkets.

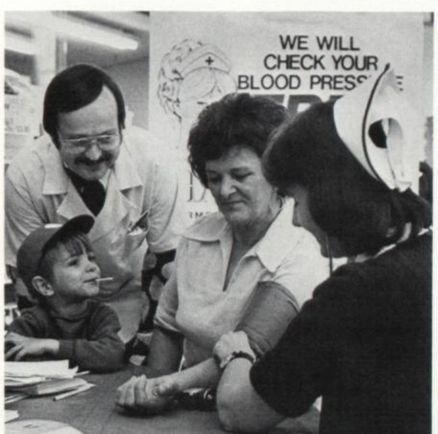
Through a revised letter form now in all stores, shoppers are being asked what they think of our people, prices and products. The responses will assist the company in making Grand Union facilities and services as ideally suited to consumer desires as possible.

Management Development

Development of responsible and highly skilled executives continues to have a high priority at Grand Union. The company's management training program has long been recognized as one of the finest in U.S. food retailing. This program is being stepped up to provide suitable management personnel in numbers adequate to keep pace with an accelerated expansion program.

Cavenham Limited

As an integral part of Cavenham Limited, a multi-national food retailing and manufacturing organization with operations in 14 nations, Grand Union people are now sharing the knowledge and experience gained by Cavenham executives worldwide. In turn, key Grand Union personnel are surveying retailing practices of Cavenham companies and in many cases recommending improvements based on the U.S. experience. Growing liaison activities between Grand Union and Cavenham Limited can be expected to benefit both.



As a community public service, Grand Rx prescription drug departments of the company conducted free high blood pressure screening programs throughout the Northeast during 1975.

Personal and attentive service in large, modern stores is a tradition at Grand Union.

Consolidated Statement of Income and Retained Earnings

THE GRAND UNION COMPANY AND SUBSIDIARIES

(Amounts in thousands)

	53 weeks ended April 3, 1976	52 weeks ended March 1, 1975
Sales	**$1,611,195**	$1,562,736
Cost of sales	**1,274,485**	1,228,744
Gross profit	**336,710**	333,992
Operating, administrative and general expenses (notes 9, 10 and 11)	**305,831**	307,291
Other deductions (income):		
Provision for store closings (note 11)	**8,150**	2,093
Write down of preferred stocks	**25**	4,619
Interest expense	**3,414**	4,880
Loss on disposition of fixed assets	**851**	406
Interest, principally on temporary cash investments	**(2,651)**	(2,318)
Dividends from investments	**(46)**	(1,279)
Income before income taxes	**21,136**	18,300
Income taxes (notes 2 and 4)	**9,449**	8,796
Net income	**11,687**	9,504
Retained earnings, beginning of period	**52,343**	47,601
	64,030	57,105
Less cash dividends:		
Common, 80¢ per share	**4,969**	4,995
Preferred, $2.25 per share	**85**	98
	5,054	5,093
Retained earnings, end of period	**$ 58,976**	$ 52,012
Net income per common share (note 2)	**$1.87**	$1.51

See accompanying notes to financial statements.

Consolidated Balance Sheet

THE GRAND UNION COMPANY AND SUBSIDIARIES

(Amounts in thousands)

ASSETS	*April 3, 1976*	*March 1, 1975*
Current assets:		
Cash (note 8)	**$ 3,163**	$ 4,580
Temporary cash investments, at cost (approximates market)	**34,887**	40,233
Investments in preferred stocks	**—**	4,782
Accounts receivable	**6,184**	8,078
Inventories (note 2)	**142,983**	145,497
Deferred federal income tax benefits (notes 2 and 4)	**6,180**	6,169
Prepaid expenses and operating supplies	**5,447**	4,422
Properties to be sold within one year	**551**	4,595
Total current assets	**199,395**	218,356
Property, net (notes 2 and 3)	**101,826**	106,234
Cost in excess of net assets of businesses acquired (note 2)	**7,412**	7,412
Other assets and deferred charges	**2,876**	3,806
	$311,509	$335,808

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (note 11)	**$ 91,729**	$101,268
Federal income taxes (notes 2 and 4)	**8,149**	3,077
Notes payable (note 7)	**—**	893
Total current liabilities	**99,878**	105,238
Notes payable (note 7)	**35,000**	59,107
Subordinated debentures, 4⅛%, due 1978	**342**	434
Other non-current liabilities and reserves	**1,756**	2,821
Deferred federal income taxes (notes 2 and 4)	**13,549**	14,280
	150,525	181,880
Commitments and contingencies (notes 7, 8, 9 and 12)		
Stockholders' equity:		
4½% cumulative preferred stock, $50 par value, callable at $52 per share; authorized 116,000 shares, issued 35,409 shares 1975, 45,584 shares 1974	**1,770**	2,279
Common stock, $5 par value, authorized 9,000,000 shares, issued 6,609,078 shares (note 6)	**33,045**	33,045
Additional paid-in capital (note 5)	**74,310**	74,231
Retained earnings (note 7)	**58,976**	52,012
	168,101	161,567
Less, treasury stock at cost (note 5)	**7,117**	7,639
Total stockholders' equity	**160,984**	153,928
	$311,509	$335,808

See accompanying notes to financial statements.

Consolidated Statement of Changes in Financial Position

(Amounts in thousands)

FUNDS PROVIDED:	*53 weeks ended April 3, 1976*	*52 weeks ended March 1, 1975*
Net income	**$ 11,687**	$ 9,504
Charges to income not affecting working capital:		
Depreciation and amortization	**17,458**	18,638
Deferred federal income taxes	**(814)**	1,449
Working capital provided from operations	**28,331**	29,591
Long term borrowings	**—**	15,000
Book value of property sales and reductions	**5,452**	4,785
	33,783	49,376
FUNDS USED:		
Dividends	**5,054**	5,093
Property additions	**19,470**	22,144
Reduction in long term debt	**24,107**	893
Purchases of Company's preferred and common stocks	**128**	1,999
Other changes, net	**81**	3,158
	48,840	33,287
Increase (decrease) in working capital	**(15,057)**	16,089
Increase in working capital for the four weeks ended March 29, 1975	**1,456**	—
Increase (decrease) in working capital	**$(13,601)**	$16,089

CHANGES IN WORKING CAPITAL:	*57 weeks ended April 3, 1976*	*52 weeks ended March 1,1975*
Increase (decrease) in current assets:		
Cash	**$ (1,417)**	$ 3,396
Temporary cash investments	**(5,346)**	34,655
Investments in preferred stocks	**(4,782)**	(17,172)
Accounts receivable	**(1,894)**	(262)
Inventories	**(2,514)**	(8,392)
Deferred federal income tax benefits	**11**	(1,915)
Prepaid expenses and operating supplies	**1,025**	(1,881)
Properties to be sold within one year	**(4,044)**	997
	(18,961)	9,426
Increase (decrease) in current liabilities:		
Notes and accounts payable and accrued liabilities	**(10,432)**	(7,296)
Federal income taxes	**5,072**	633
	(5,360)	(6,663)
Increase (decrease) in working capital	**$(13,601)**	$16,089

See accompanying notes to financial statements.

Notes to Financial Statements

Note 1 — Principal Stockholder:

As of April 3, 1976, Cavenham Limited, an English Company, through subsidiary companies (Cavenham (Overseas) Limited, Cavenham Holdings, Inc. and Cavenham (USA) Inc.) beneficially owned 5,074,609 shares, or approximately 82%, of the Company's outstanding common stock. Of this amount, 3,200,000 shares were acquired through a cash tender offer in December 1973 and 1,874,609 shares were acquired in January 1976 in exchange for debentures of Cavenham (USA) Inc. In connection with the exchange offer, certain restrictions were imposed on Grand Union, including among others, restrictions on its ability to incur additional debt and to issue additional stock. The Company is also a party to a tax sharing agreement with Cavenham (USA) Inc. and Cavenham Holdings Inc. See details in Note 4.

Note 2 — Summary of Accounting Policies:

The significant accounting principles affecting the Company's financial statements are summarized below.

Fiscal Year: On February 28, 1975 the Board of Directors changed the closing date of the fiscal year from the Saturday nearest the last day of February to the Saturday nearest the last day of March. Results for the month of March 1975, which have been credited directly to retained earnings, include sales $119,782,000, income before taxes $520,000, estimated income taxes $167,000, and net income $353,000 (5¢ per share). As a result of the change in fiscal year, the 1975 period includes 53 weeks compared to the 52 weeks of 1974.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. Significant intercompany transactions and balances have been eliminated.

Inventory Valuations: Inventories are valued principally at the lower of average cost or market, using the retail method for store inventories, and average cost for warehouse and other inventories.

Property: The costs of significant additions, renewals and betterments of leased and owned properties are capitalized. Maintenance and repairs which do not improve or extend the life of the respective asset are charged to expense currently. Depreciation is computed, principally on the straight line method, to amortize the cost of depreciable properties over their useful lives. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives.

Pre-Opening Costs: Store pre-opening costs and carrying charges relating to land held for development or sale are charged to expense in the year incurred.

Costs in Excess of Net Assets of Businesses Acquired: Management does not believe that such amounts, which arose from acquisitions prior to November 1, 1970, have diminished in value and accordingly is not amortizing such amount.

Income Taxes: Differences between income taxes provided on financial statement income and the actual amounts payable result in adjustments to the deferred or prepaid tax accounts. Such differences arise primarily through the use of accelerated methods of depreciation for tax purposes and the recording of certain reserves for financial statement purposes which are not deductible for tax purposes until the expenses are actually incurred. Investment tax credits are accounted for as a reduction of income taxes in the year that the credits arise.

Net Income Per Share: Net income per share of common stock is based on the weighted average number of shares of common stock outstanding during the period after giving effect to dividends on preferred stock. Stock options outstanding had no material dilutive effect.

Pension Plan: The Company maintains a non-contributory, trusteed pension plan for eligible employees. The Company's policy is to fund pension costs accrued. Pension expense under the plan consists of normal cost less amortization of past service costs and actuarial gains and losses over a twenty year period.

Note 3 — Property:

Property, at cost, consisted of the following:

	April 3, 1976	*March 1, 1975*
	(In thousands)	
Land	$ 6,050	$ 6,250
Buildings	7,583	7,647
Fixtures and equipment	160,860	158,474
Leasehold improvements	38,400	36,747
	212,893	209,118
Less — Accumulated depreciation and amortization	111,067	102,884
	$101,826	$106,234

Note 4 — Income Taxes:

Effective with the exchange offer described in Note 1, the Company entered into a tax sharing agreement which provides for the filing of consolidated federal income tax returns and for a sharing payment to the Company by Cavenham Holdings of 15% of the amount by which the Company's federal income tax, calculated separately, plus the income taxes of Cavenham Holdings and Cavenham

(USA) Inc. calculated separately, exceeds the actual federal income tax liability of the consolidated group. Income taxes payable have been reduced by $125,000 representing the Company's share of group tax savings since the effective date of the tax sharing agreement.

The components of income tax expense are as follows:

	53 weeks ended April 3, 1976	52 weeks ended March 1, 1975
	(In thousands)	
Federal income taxes:		
Currently payable net of tax sharing credit	$8,078	$3,839
Amortization of deferred investment tax credit applicable to 1967 and prior years	(143)	(221)
Deferred, consisting of:		
Excess of tax over book depreciation	–	1,149
Difference between liabilities provided and payments made:		
Dispositions of unprofitable stores	(226)	2,326
Other	(172)	109
State income taxes	1,912	1,594
Total income tax provision	$9,449	$8,796

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for federal and other income taxes is as follows:

	53 weeks ended April 3, 1976	52 weeks ended March 1, 1975
	(In thousands)	
Provision computed at 48% of pre-tax income	$10,146	$8,784
Increase (decrease) in the provision resulting from:		
Current year's investment tax credit	(1,242)	(1,225)
Amortization of deferred investment tax credit	(143)	(221)
85% dividends received deduction	(14)	(521)
Capital gains or losses (net), taxed at a rate less than 48%	–	362
State and local taxes, net of federal tax benefit	994	829
Capital losses not currently deductible for tax purposes	–	1,084
Other, net	(292)	(296)
	$9,449	$8,796

Capital loss carryforwards of approximately $3,193,000 at April 3, 1976 are available to offset future taxable capital gains through March 31, 1979.

Note 5 — Stockholders' Equity:

Changes in additional paid-in capital and treasury stock are as follows:

	Additional paid-in capital	Treasury Stock
	(In thousands)	
Balance March 2, 1974 (includes 243,154 common shares and 580 preferred shares held in Treasury)	$74,236	$5,651
Issuance of 605 common shares for exercised stock options	(5)	(12)
Purchase of 167,506 shares of common stock	–	1,842
Purchase of 5,377 shares of preferred stock	–	158
Balance March 1, 1975 (includes 410,055 common shares and 5,957 preferred shares held in Treasury)	74,231	7,639
Issuance of 19,133 common shares for exercised stock options	(128)	(349)
Purchase of 4,218 shares of preferred stock	–	128
Retirement of 10,175 shares of preferred stock	207	(301)
Balance April 3, 1976 (includes 390,922 common shares held in Treasury)	$74,310	$7,117

Note 6 — Stock Options:

Pursuant to a non-qualified plan approved by the stockholders in May 1973, the Company was authorized to grant to key employees options to purchase 600,000 common shares at option prices equal to at least the fair market value at the date of grant. Options granted become 50% exercisable six months after the date of grant and 100% exercisable one year from the date of grant.

No options may be granted after December 31, 1977 and no shares may be purchased under option after seven years from the date of grant or after December 31, 1984, whichever date occurs sooner.

The following is a summary of stock option transactions:

	Price per share	Under Option	Available for Option
At inception of plan, May 1973			600,000
Granted	$11.375-$13.00	149,025	(149,025)
Outstanding at March 2, 1974	11.375- 13.00	149,025	450,975
Granted	–	–	–
Exercised	11.375	(605)	–
Cancelled	11.375	(8,425)	8,425
Outstanding at March 1, 1975	11.375- 13.00	139,995	459,400
Granted	–	–	–
Exercised	11.375- 13.00	(19,133)	–
Cancelled	11.375	(11,525)	11,525
Outstanding at April 3, 1976	$11.375-$13.00	109,337	470,925

Options to purchase 109,337 and 139,995 shares were exercisable April 3, 1976 and March 1, 1975 respectively.

Note 7 — Notes Payable:

Notes payable consist of the following:

	April 3, 1976	March 1, 1975
	(In thousands)	
Revolving credit notes	$ —	$25,000
Promissory notes 8% due 1993	35,000	35,000
	35,000	60,000
Less - amount payable within one year	—	893
Long term portion	$35,000	$59,107

Under the terms of the Revolving Credit and Loan Agreement, the Company prepaid in June 1975 the Revolving Credit Notes then outstanding under the agreement. In August 1975 the revolving credit part of the agreement was extended for one year to November 10, 1976. Any Revolving Credit Notes in existence can be convertible at Grand Union's option into term notes at any time prior to November 10, 1976. The term notes will be payable quarterly in equal installments beginning ninety days after the date of the term notes through November 10, 1982. The agreement provides for interest at 1/4 of 1% above prime except that, upon final payment of the term notes, the average interest rate under the revolving credit and term notes will be limited to 7 3/4%.

The initial repayment on long-term debt over the next 5 years provides for $1,000,000 payments in 1979 and 1980.

Each of the agreements contain certain dividends and other restrictions. At April 3, 1976 approximately $11,200,000 of retained earnings were free of such restrictions.

Note 8 — Compensating Balances and Borrowing Arrangements:

The Company has borrowing arrangements with a number of banks which generally call for the informal, but not legally binding, maintenance of compensating balances averaged over a yearly period in amounts equal to 10% of the bank lines of credit (aggregating $39,400,000) plus 10% of borrowings under some lines of credit. Compensating balances maintained under these agreements approximated $3,940,000 at April 3, 1976. A substantial portion of the compensating balances is normally covered by incompleted transactions with banks.

Note 9 — Property Leases:

The Company operates principally in leased stores, distribution facilities and offices and, in most cases, holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses.

Total rental expense under all leases was as follows:

	53 weeks ended April 3, 1976	52 weeks ended March 1, 1975
	(In thousands)	
Minimum annual rents on non-cancellable financing leases (net of sublease rental income of $1,394,000 and $1,177,000, respectively)	$18,383	$16,996
Minimum annual rents on other leases (net of sublease rental income of $433,000 and $214,000, respectively)	9,200	9,932
Contingent rentals on non-cancellable financing leases (no sublease rental income)	1,028	795
Contingent rentals on other leases (no sublease rental income)	341	373
	$28,952	$28,096

Minimum annual rents, not including real estate taxes and additional payments based on percentages of sales, are as follows:

	April 3, 1976		
	Financing	Other	Total
	(In thousands)		
1976	$17,834	$5,906	$23,740
1977	17,428	5,304	22,732
1978	16,563	4,300	20,863
1979	15,765	3,745	19,510
1980	15,194	3,276	18,470
1981-85	65,009	9,758	74,767
1986-90	48,954	2,350	51,304
1991-95	26,052	45	26,097
Remainder	4,519	—	4,519

Amounts in the table above reflect the following deductions for sublease rental income:

	April 3, 1976		
	Financing	Other	Total
	(In thousands)		
1976	$1,182	$368	$1,550
1977	1,097	317	1,414
1978	1,027	273	1,300
1979	996	234	1,230
1980	934	193	1,127
1981-85	2,848	413	3,261
Remainder	777	200	977

The net present value (based on interest rates existing at the commencement of the lease, ranging

from 5.00 — 10.50% with a weighted average of 8.76% and 8.38% for 1975 and 1974, respectively) of minimum annual rents on non-capitalized financing leases is $118,834,000 and $120,301,000 for fiscals 1975 and 1974, respectively. These amounts have been reduced by the present value of sublease income of $6,254,000 in 1975 and $6,126,000 in 1974.

On the assumption that all non-capitalized financing leases as defined by the Securities and Exchange Commission were capitalized and amortized on a straight-line basis and interest costs were accrued on the related liability, net income would have been affected as follows:

	53 weeks ended April 3, 1976	*52 weeks ended March 1, 1975*
	(In thousands)	
Increase in depreciation expense	$ 8,567	$ 9,220
Increase in interest expense	9,395	9,548
Decrease in rent expense	15,812	15,557
Decrease in income tax expense	1,032	1,541
Pro forma decrease in net income	$ 1,118	$ 1,670

Note 10 — Pension Plan:

Pension expense under the Company's non-contributory plan was $1,478,000 at April 3, 1976 and $929,000 at March 1, 1975.

The Employee Retirement Income Security Act of 1974 makes it necessary for Grand Union to amend its pension plan to meet certain requirements of the Act. The increase in pension expense for the fiscal year ending April 2, 1977 is estimated to be approximately $750,000 due to the mandatory changes. There are no unfunded vested benefits or unfunded prior service costs.

Note 11 — Reorganization Expenses:

During 1975 and 1974 the Company discontinued the operation of its Triple S Blue Trading Stamps operation, closed its Trading Stamp Redemption Centers, closed certain Grand Catalog Showrooms and sold its E-Z Shop division. As a result of these undertakings, the Company recorded unusual charges of $6,650,000 and $925,000 in the fiscal years ended April 3, 1976 and March 1, 1975, respectively, net of credits of $1,500,000 and $2,012,000, respectively, resulting from re-evaluations of the estimated future liability for redemptions of trading stamps carried out in connection with the closing of the trading stamp business.

Note 12 — Contingencies:

The Company has been named as a co-defendant in five similar anti-trust actions brought by producers and feeders of cattle. Each of the actions allege violations by the defendants of the federal anti-trust laws in connection with the purchase and sale of beef and seeks unspecified damages and injunctive relief.

All of these law suits are in early pre-trial stage. It is not possible to predict with any degree of certainty the ultimate outcome of any of these law suits since, among other things, the conduct of the other defendants as alleged co-conspirators could have an impact on the liability of the Company. However, management of the Company is not aware of any facts concerning the Company's activities which would indicate that the Company has violated the anti-trust laws in the manner alleged in the complaints.

Report of Independent Accountants

Price Waterhouse & Co.

411 Hackensack Avenue
Hackensack, New Jersey 07601
May 3, 1976

To The Board of Directors and Stockholders of The Grand Union Company:

In our opinion, the accompanying consolidated balance sheet and the related statements of income and retained earnings and of changes in financial position present fairly the financial position of The Grand Union Company and its subsidiaries at April 3, 1976 and March 1, 1975 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Five-Year Financial Summary

(Amounts in thousands except for per share figures)

FOR THE FISCAL YEAR ENDED	April 3, 1976 (a)	March 1, 1975	March 2, 1974	March 3, 1973 (a)	Feb. 26, 1972
Sales	**$1,611,195**	$1,562,736	$1,493,969	$1,379,681	$1,304,411
Cost of sales	**1,274,485**	1,228,744	1,177,442	1,086,729	1,022,220
Gross profit	**336,710**	333,992	316,527	292,952	282,191
Operating, administrative and general expenses	**305,831**	307,291	301,553	277,163	254,900
Other deductions (income):					
Provision for store closings	**8,150**	2,093	9,039	—	—
Write-down of preferred stocks	**25**	4,619	1,864	—	—
Interest expense	**3,414**	4,880	2,610	235	288
Loss (gain) on disposition of fixed assets	**851**	406	(131)	439	647
Interest, principally on temporary cash investments	**(2,651)**	(2,318)	(663)	(411)	(382)
Dividends from investments	**(46)**	(1,279)	(699)	(151)	—
Income before income taxes and extraordinary items	**21,136**	18,300	2,954	15,677	26,738
Provision for income taxes	**9,449**	8,796	645	6,685	12,720
Income before extraordinary items	**11,687**	9,504	2,309	8,992	14,018
Extraordinary items	**—**	—	—	(612)	(1,000)
Net income	**$11,687**	$9,504	$2,309	$8,380	$13,018
Income per common share:					
Before extraordinary items	**$1.87**	$1.51	$ .35	$1.40	$2.16
Extraordinary items	**—**	—	—	(.10)	(.16)
Net income per common share	**$1.87**	$1.51	$ .35	$1.30	$2.00
Cash dividends	**$ .80**	$ .80	$ .80	$ .80	$ .80
Net income as a percent of sales	**.73%**	.61%	.15%	.61%	1.00%

AT THE YEAR END					
Ratio of current assets to current liabilities	**2.00 to 1**	2.07 to 1	1.87 to 1	1.70 to 1	1.81 to 1
Equity per common share	**25.60**	24.51	23.45	23.92	23.38
Number of stores at year end:					
Supermarkets	**487**	503	531	539	542
Grand Way stores	**14**	14	23	23	26
Grand Catalog Showrooms	**9**	17	18	5	—

(a) 53-week fiscal year

Management Discussion and Analysis

General

Company sales have continued to increase on a year to year basis, in spite of intense competition in all operating areas and also in spite of the weakened economic conditions during the past two years. Inflationary pressures have resulted in higher retail food prices which have contributed to the Company's sales increase. Food prices have gone up at a greater rate than Company sales, indicating lower physical volume of merchandise moved.

During the past five years, trading stamps have been abandoned as a promotional device by most food chains, including Grand Union. Grand Union's stamp de-entry program was completed in this past fiscal year.

The inflationary spiral of the past few years continues to push up the cost of merchandise purchased by the Company for resale. However, corresponding increases in retail prices have maintained reasonably stable gross profit levels during the past five years, except for the latest fiscal year ended April 3, 1976. Gross profit per cent this past year fell slightly below the 21% mark following elimination of trading stamps. Somewhat offsetting the lower pricing, however, has been an improvement in the "merchandise mix," which has been made possible by the opening of larger stores and renovating and enlarging of existing stores.

Total dollars spent for operating, administrative and general expenses declined for the fiscal year ended April 3, 1976 compared with the previous year. This was mainly due to the closing of units other than supermarkets. As a per cent to sales, overhead expenses decreased to their lowest level in five years during this latest fiscal year. The total expense rate, at 19.0% compared with 19.7% the previous year and a five-year average also of 19.7%, reflects also both the elimination of the trading stamp expense and a more effective expense control program. Employees continue to enjoy competitive increases in hourly labor rates, but this expense, as a per cent to sales, has been kept under control through better productivity.

The Company's net income of $11,687,000 for the latest fiscal year is a considerable improvement over the past three years, although lower than the fiscal year ended February 26, 1972. During the five-year period under review, the Company has made substantial charges against income for provision for store closings, write-down of preferred stocks, and extraordinary items, as is shown on the Five-Year Financial Summary. A comparison of pre-tax earnings before such charges are applied indicates that the latest fiscal year ended April 3, 1976 showed the best record in the five years under review (000 omitted):

Fiscal year ended April 3, 1976	$29,311
Fiscal year ended March 1, 1975	25,012
Fiscal year ended March 2, 1974	13,857
Fiscal year ended March 3, 1973	15,677
Fiscal year ended February 26, 1972	26,738

The substantially reduced earnings during the two fiscal years ended March 3, 1973 and March 2, 1974 can be attributed to highly competitive market conditions as food chains sought to increase sales to keep pace with increasing costs, federal price controls, and the reorganization of certain operations of the Company. The improvement during the past two fiscal years has been in general the result of programs undertaken and implemented since Cavenham Limited acquired 51% of the Company's common stock late in 1973 (increased to approximately 82% this past year).

Set forth below are comparisons of other significant line items in the Five-Year Financial Summary for the periods indicated.

FISCAL YEAR ENDED APRIL 3, 1976 vs. FISCAL YEAR ENDED MARCH 1, 1975

Operating, administrative and general expenses

As explained above, the elimination of the operations of closed units in other than the Supermarket Division contributed significantly to the decline in overall operating expenses in 1975 from 1974.

Other deductions (income)

Included in the results for the fiscal year ended April 3, 1976, are unusual charges established for losses anticipated in connection with the discontinuance of certain operations, including a reserve of $2,400,000 for the closing of five Grand Catalog Showrooms and all leased department operations and a reserve of $5,750,000 in connection with the further discontinuance of Triple S Blue Trading Stamps.

The loss on disposition of fixed assets resulted primarily from Supermarket closings completed early in the fiscal year.

Interest on temporary cash investment reflects the investment of cash, including amounts resulting from the liquidation of the Company's preferred stock investments, not immediately required for

Management Discussion and Analysis (CONTINUED)

operating purposes at relatively higher interest rates prevailing in the beginning of 1975.

The dividends from investments reflect dividends from preferred stock holdings, the liquidation of which was completed in early 1975.

The 1975 provision for income taxes includes $125,000 representing the Company's share of tax savings as a participant in the Cavenham Holdings tax sharing agreement.

FISCAL YEAR ENDED MARCH 1, 1975 vs. FISCAL YEAR ENDED MARCH 2, 1974

Operating, administrative and general expenses

The increase in depreciation expense of approximately $3,000,000 represents the full effect of the substantial capital expenditure program carried out during the fiscal year ended March 2, 1974.

Other deductions (income)

During the fiscal year ended March 1, 1975 a provision of approximately $2,100,000 was established for the closing of Triple-S Blue Stamp Redemption Centers and certain Grand Catalog Showrooms, which was partially offset by revised estimates relating to provisions previously established for Grand Way store closings. This compares with a provision of approximately $9,000,000 which was established for Grand Way store closings in the previous fiscal year.

The $4,600,000 provision for the fiscal year ended March 1, 1975 represents a reduction of the preferred stock portfolio to approximate market and realized losses on liquidation of the portfolio. Approximately $1,900,000 of similar losses were recognized in the prior fiscal year.

The increase in interest expense of approximately $2,200,000 is a result of interest cost on a total of $60,000,000 in notes obtained at various times through private placements in the fiscal year ended March 2, 1974 and early in the fiscal year ended March 1, 1975.

The increase of approximately $1,700,000 in interest on temporary cash investments results from the investment of cash not immediately required for operating purposes at the relatively high interest rates prevailing through most of the fiscal year ended March 1, 1975.

The increase of approximately $600,000 in dividends in the fiscal year ended March 1, 1975 related to the dividends received from the investment in the preferred stocks.

The gain on the disposition of fixed assets in the fiscal year ended March 2, 1974 was unusual and reflected several condemnation awards which were in excess of book value.

The increase in the effective tax rate in the fiscal year ended March 1, 1975 to 48% from the previous fiscal year's 22% is due to the fact that the preferred stock writedowns resulted in a reduction of taxable income with only limited corresponding tax benefit during this period. For financial reporting purposes the full tax benefit corresponding to such write-downs could not be reflected in the Company's financial statements because the utilization of these losses was not assured beyond a reasonable doubt during this period. In addition, the effective tax rate in the fiscal year ended March 2, 1974 was affected to a great degree by utilization of investment tax credit applied to a lower income before taxes.

General Information

DESCRIPTION OF BUSINESS

The Grand Union Company is the nation's ninth largest supermarket chain, operating 487 supermarkets, 14 Grand Way general merchandise stores and nine Grand Catalog Showrooms in 11 Eastern states, Puerto Rico and the U. S. Virgin Islands.

TRANSFER AGENT

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

REGISTRAR

Chemical Bank
20 Pine Street
New York, New York 10015

GENERAL OFFICES

The Grand Union Company
Corporate Headquarters
100 Broadway
Elmwood Park, New Jersey 07407
Telephone: (201) 796-4800

STOCK LISTING

Common stock of The Grand Union Company is traded on the New York Stock Exchange under the ticker symbol "GUX."

ANNUAL MEETING

The annual meeting of stockholders of The Grand Union Company will be held at 10 a.m. on Wednesday, June 23, 1976, in the Bergen and Passaic Rooms of the Marriott Motor Hotel, Interstate Route 80 and Garden State Parkway Interchange 159, Saddle Brook, New Jersey.

A notice of the meeting, a proxy statement and form of proxy are being mailed with this report to each stockholder of record as of May 10, 1976.

STOCK PRICE, DIVIDEND AND EARNINGS DATA

			1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales (in thousands)	1975		$474,848	$361,735	$378,739	$395,873
	1974		382,164	383,910	396,351	400,311
Net income (in thousands)	1975		$ (2,452)	$3,971	$5,046	$5,122
	1974		1,120	1,705	2,754	3,925
Net income per share	1975		$ (.40)	$ .64	$ .80	$ .83
	1974		.17	.27	.44	.63
Dividends per share	1975		$ .20	$ .20	$ .20	$ .20
	1974		.20	.20	.20	.20
Price range of common stock	1975	High	15⅞	15⅜	16⅜	15⅞
		Low	14	12¾	10⅜	13¾
	1974	High	14	12	12⅛	12¾
		Low	9¾	9⅝	8	7⅛

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